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USDOC FOR 5102/FOREIGN TRADE ZONES (ITA/IA)

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SUBJECT: GUATEMALAN FREE TRADE ZONES

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Below are Post's responses to questions regarding the Free Trade Zones (FTZs) Program in Guatemala. Answers are keyed to match questions in reftel and are based on Decree 65-89, Law of Free Trade Zones. Post also consulted experts on FTZs issues at the Ministry of Economy and the Customs Administration for clarification.

a. According to the Ministry of Economy, there are 20 authorized FTZs currently, but only 14 with operations. FTZs may be established in any region of the country.

b. Private FTZs are managed by private administrative agencies, which require authorization from the Ministry of Economy to install and develop FTZs. FTZs are provided special customs benefits under the supervision of the Guatemalan customs authorities.

c. Businesses operating within FTZs require authorization from the Ministry of Economy to operate, but the process is done only once and not for each manufacturing activity. If all the requirements are met, the process of obtaining approval from the Ministry may take about three weeks.

d. There are three types of Free Trade Zones' users: industrial, commercial and service permit holders. Industrial permit holders can assemble or manufacture products in the zone for export or re-export, and they can use both foreign and domestic inputs. According to the Law of Free Trade Zones, industrial permit holders may sell to the domestic market a maximum of 20 percent of their total production, but require previous authorization from the Ministry of Economy. In such cases, the value of each sale should not be lower than US$5,000 and should have only one consignee in the national customs territory. Commercial permit holders do not transform goods. They often use FTZs for wholesale distribution of imported goods to the five economies of the Central American Common Market. Service permit holders are often firms engaged in washing and treating fabric and apparel for the apparel maquila industry.

e. Industrial permit holders, as well as service permit holders, authorized to operate in Free Trade Zones are exempted from duties and import taxes on equipment, machinery, tools, raw materials, inputs, semi-elaborated products, containers, packaging and are exempted from the value added tax in the transfer of merchandise within and between Free Trade Zones. Manufactured merchandise that leaves the zone to be sold in the domestic market must pay duties. According to the Customs Administration office responsible for FTZs issues, the manufacturer must pay duties at the rate that applies to the finished product, and duties are paid on the entire value of the product.

f. There are no special provisions for small and medium businesses or for new foreign direct investment operating within Free Trade Zones.

g. Industrial and service permit holders also enjoy a ten-year income tax exemption on income obtained exclusively from the activity as an industrial permit holder. Commercial permit holders enjoy a five-year income tax exemption on income obtained exclusively from the activity.

h. There are no other financial incentives for business operating in Free Trade Zones

i. There are no other exemptions contained in other laws or regulations.

j. There are no other restrictions or requirements, such as export requirements (other than for industrial permit holders, as explained above), local content requirements, or ownership requirements for businesses operating within Free Trade Zones.